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## Economics, Faith and Welfare Reform: Can We Improve Government Policy for the Poor?

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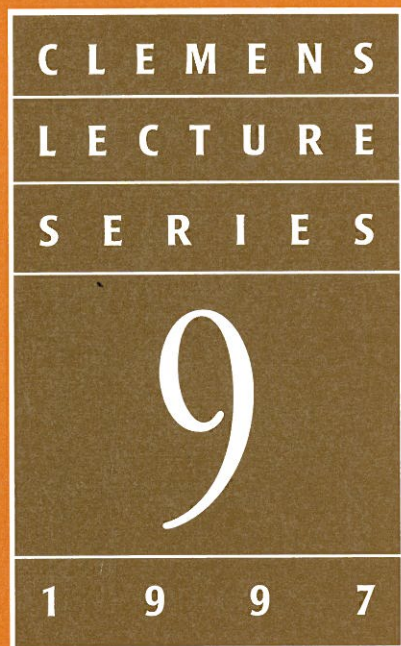
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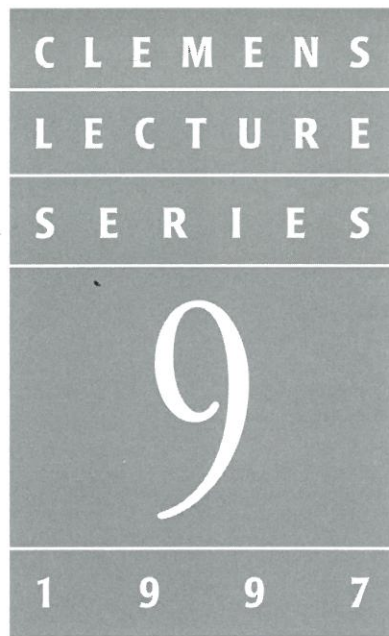
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Welfare Reform:  
Can We Improve Government  
Policy for the Poor?

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Dr. Rebecca Blank



**Economics, Faith and  
Welfare Reform:  
Can We Improve Government  
Policy for the Poor?**

Lecture by  
**Dr. Rebecca Blank**

September 11, 1997  
Saint John's University  
Collegeville, Minnesota



## Dr. Rebecca Blank

Dr. Rebecca Blank is one of the nation's leading economists in the study of poverty and welfare programs. Her latest book, *It Takes a Nation: A New Agenda for Fighting Poverty* (Princeton University Press, 1997), has been acclaimed for its economic insight, clarity, and common sense in the face of a host of unsubstantiated assertions about poverty and poor people in the national debate on welfare reform. She is author of scores of scholarly articles and two other books, including *Do Justice: Linking Christian Faith and Modern Economic Life*. Dr. Blank is Professor of Economics at Northwestern University and the founding director of the Joint Center for Poverty Research sponsored by Northwestern University and the University of Chicago.



# **Economics, Faith and Welfare Reform Can We Improve Government Policy for the Poor?**

Rebecca M. Blank

After almost 20 years of working on issues relating to poverty and public policy I have concluded that the Bible got it wrong. It is not the poor who will always be with us; it is efforts to reform welfare that seem to be ever-ongoing. Every one of the last eight Presidents sent major welfare reform legislation to the Congress except George Bush, and his administration wrote and planned for such legislation without sending it forward.

## **The Recent Welfare Reform Bill: What Does it Do?**

The latest effort at welfare reform is the (take a deep breath) Personal Responsibility and Work Opportunity Reconciliation Act of 1996. Like other reforms before it, this legislation is a mixture of both old and new ideas. Viewed in one way, the legislation simply continues the trend toward a work-based public assistance system that has been underway for the past 20 years. But viewed in another way, the legislation makes fundamental changes to the organization of our system of providing public assistance and relief to the poor.

In this talk I am going to ignore many parts of the 1996 welfare reform legislation. In particular, I will say nothing about the cuts in Food Stamps, the cuts to immigrants or the cuts in assistance to the disabled. These are important changes that deserve discussion, and perhaps we can come back to them during questions and answers. But in terms of numbers of people affected and amount of dollars spent, the biggest effects of the legislation are on low income families with children. This is the group who has historically been eligible for Aid to Families with Dependent Children or AFDC. AFDC has been the national cash assistance program available to poor (and primarily single parent) families.

But you don't need to know anything about AFDC because the 1996 legislation abolishes it. The new law takes the money that the Federal government had been

providing to the AFDC program and returns it to the states as a block grant. The new acronym to remember is TANF (pronounced “tan-if”) — Temporary Assistance to Needy Families — which is the name of the block grant replacing AFDC.

There are three major ways in which TANF differs from AFDC. First, it provides much greater state discretion over the provision of public assistance to poor families. States can use their TANF block grant dollars in any way that provides services to low income families; they can exercise much greater choice about who receives assistance and who does not; they can also provide a much broader range of services. They can provide cash assistance but they can also provide other services with the money instead, such as marriage counseling, or pregnancy prevention, or job training.

By turning the dollars over to the states as part of a block grant, the new law eliminates two forms of entitlements. The individual entitlement to cash assistance is gone. Under AFDC, any parent whose personal economic circumstances put their family below a set of income and asset limits was entitled to cash assistance. Using TANF dollars, states can provide something other than cash assistance, and can define some families as simply ineligible.

In addition, the state entitlement to matching federal dollars is gone. Under AFDC, if state spending on public assistance rose, Federal dollars increased one-for-one with state dollars. So if new immigrant populations increased poverty in the state, the state would have to spend more, but they’d also get more money from the Federal government. Under TANF, the dollars come as a lump-sum block grant which is unvarying from year to year. If need in the state increases, or if the state decides to raise its public assistance benefits, all of the additional funds must come from the state budget. In my opinion, the loss of the state entitlement to matching Federal dollars is likely to have far greater effects on the poor than the loss of individual entitlements to cash assistance.

The second major way in which TANF differs from AFDC is that it has far stronger work mandates. No one can receive assistance from a TANF-funded program for more than 24 months before they must start work or be actively involved in a work-related program. In addition, states face Federal requirements that an increasing share of their caseload must be working in order to continue to receive TANF funds. We have long tried to encourage work among welfare recipients; these new regulations push a little harder and faster than before.

The third and the most radical aspect of the new legislation is the time limits it sets for individual public assistance receipt. No adult can receive assistance for more than 60 cumulative months (5 years). After 5 years, all access to TANF-funded services is terminated. Forever. Regardless of what happens in an individual’s life. In fact, a number of states are optionally choosing shorter time limits of 2, 3, or 4 years. States can exempt 20 percent of their caseload from these time limits. And they can continue to provide assistance to anyone indefinitely as long as they use state dollars rather than Federal block grant dollars.

These time limits have (rightfully) caused a great deal of discussion. More than any other provision in the new law, they fundamentally change and limit the social

safety net of this country. I think it is still unclear how important they will be since it’s not yet clear how strongly they will be enforced. My own guess is that the time limit requirements will almost surely be weakened in a variety of ways: States will find ways to validly exempt more than 20 percent of their caseload; the Federal government could agree to regulations that allow states to continue providing TANF funds to people making some sort of “good faith effort” — i.e., working or actively looking for work. In addition, there is no good tracking system even within many states to provide a timely measure of when an individual has hit the 60 month point. There are many ways around time limits. Given that they are essentially irrelevant for the next few years, we just don’t know how many states will fully enforce them when they start to bind.

The major message of this legislation is that the way out of poverty is through employment. Government assistance will be limited and closely linked to work behavior. This is not a new idea. In fact, we have almost always imposed work requirements on at least some public assistance recipients. But this legislation takes a big step away from national cash assistance for low-income families and towards state-operated job-search programs for these families, with short-run cash assistance available only in the short term.

The big question is “Will it work?” Advocates of this legislation argue that the “get tough” provisions will force poor single parents to realize that the only way to support their family is to get and keep a job. By limiting government assistance, the new legislation will reduce dependency on public assistance and increase self-reliance. Opponents of this legislation argue that it will simply make life harder for a group of women and children whose income and resources are already limited. Particularly if jobs are not available, the time limits and work mandates may leave some of them with no way to support themselves and without government assistance.

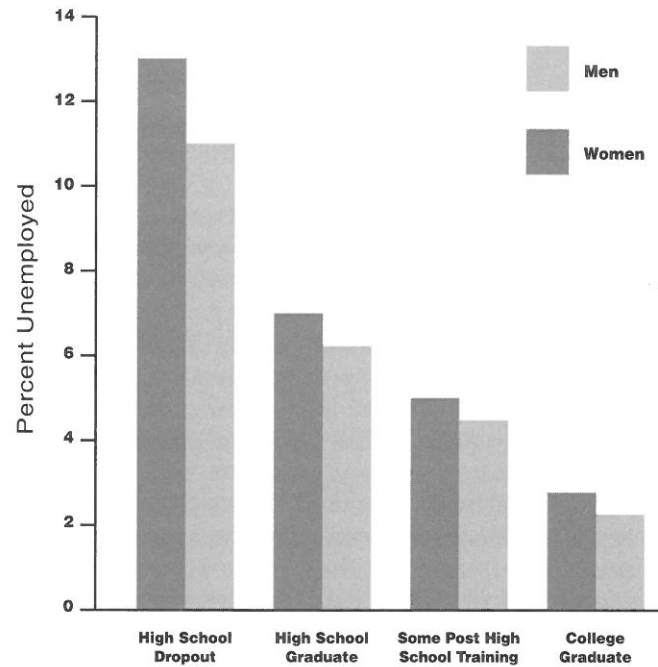
### Is the Labor Market Up to the Challenge?

The state of the labor market is vitally important if this legislation is going to work. In particular, there are two key questions. First, are there enough jobs available so that current public assistance recipients can find employment? Second, do those jobs pay enough to provide families with the resources they need to be economically self-sufficient?

*Job Availability.* The good news is that we couldn’t be implementing job-based welfare reform legislation at a better time economically. The unemployment rate is at a 23-year low, with only about 5 percent of the labor market actively searching for work. Furthermore, given that the vast majority of public assistance recipients are women, women’s unemployment rates have been even lower than men’s for much of the past decade. Figure 1 plots the unemployment rate for men and women over the past 25 years. Clearly, job availability as measured by the unemployment rate looks pretty good.

There are, however, two reasons to be wary of over-optimism on the job availability front. First, less skilled workers have much higher unemployment

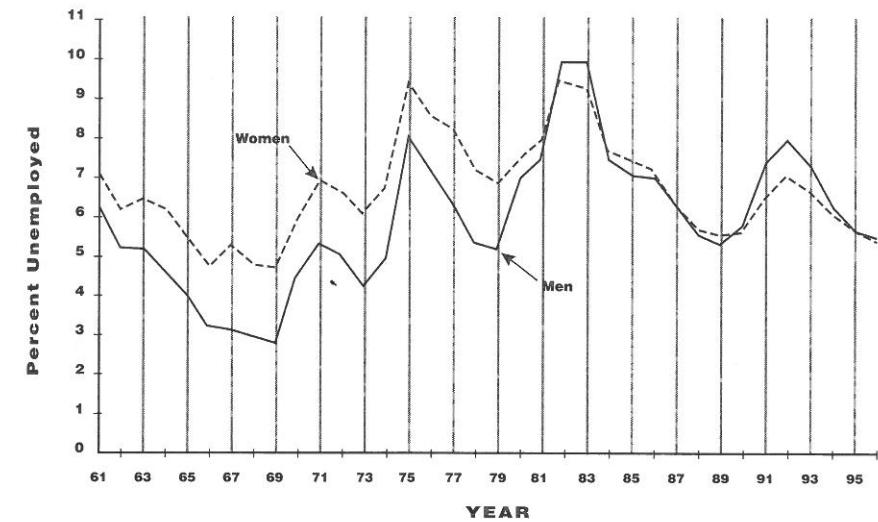
Figure 1. Unemployment Rates by Skill Level



rates than more skilled workers. Figure 1 indicates that workers without a high school degree had an unemployment rate five times that of college educated workers in 1995. Even when aggregate unemployment stands at the 5 percent level, unemployment rates among the least skilled are around 10 percent. Through most of the past two decades they've been much higher. In short, while job availability for less skilled workers has not deteriorated, there have always been a significant number of less skilled workers who have difficulty finding jobs.

Second, even though we may currently be at a point of low unemployment rates, unemployment tends to cycle up and down as the aggregate economy cycles. Unfortunately, economists have not solved the problem of the business cycle. As Figure 2 illustrates, the U.S. economy has regularly faced an economic slowdown and a rise in unemployment rates every 4 to 7 years. We're currently in the sixth year of economic expansion. At some point in the future — and I'm not foolish enough to predict whether it will be next year or three years from now — we will experience an economic slowdown. Unemployment will rise. When that happens, it is the least skilled who are thrown out of work first.

Figure 2. Unemployment Rates by Sex



In short, we can't count on low unemployment lasting forever. There will be another recession and a rise in unemployment. The question is not whether this will happen, the only question is when it will happen and how high unemployment will rise. In my opinion, the new welfare legislation is not a "recession-proof" bill. I understand how one can impose work requirements and time limits in a period of extensive job growth and low unemployment. But I don't see how the legislation works when unemployment is rising. When firms are laying off experienced workers they will not be hiring unskilled public assistance recipients. I suspect that major changes to this legislation could occur when the economy next faces a recession.

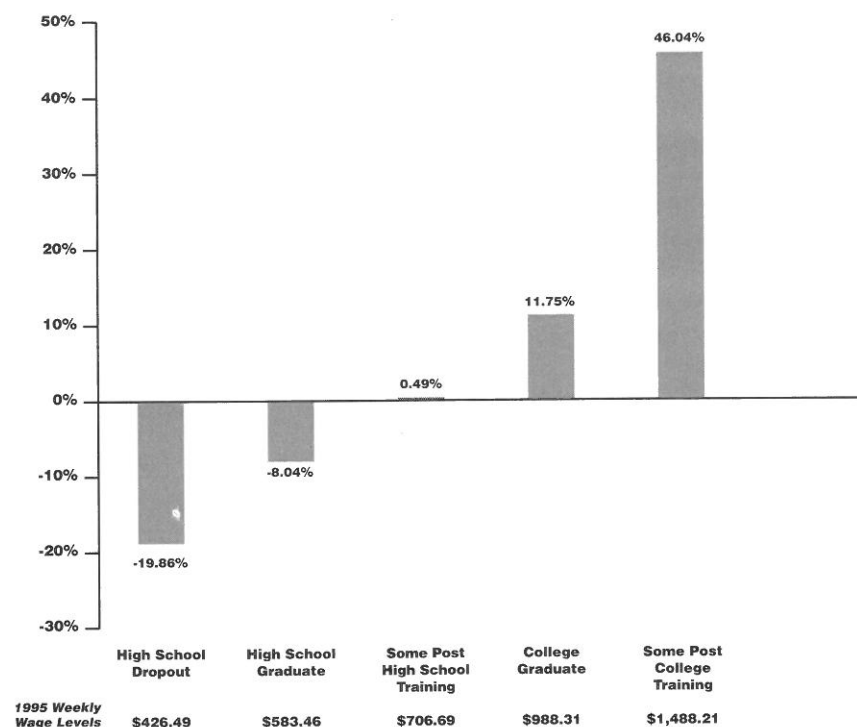
Unlike some observers, I don't worry too much about job availability today. In fact, I suspect that in most areas of the country (not all, but most) public assistance recipients who seek work will find it with a bit of search. But I do worry about job availability tomorrow when the macroeconomy is doing much less well.

*The Nature of the Jobs Available.* Assuming no problems with job availability, it is still important to ask about the nature of the jobs available. Even if all public assistance recipients can find work, that work must pay enough to allow them to leave public assistance and support their families within a few years. Here the news is not good.

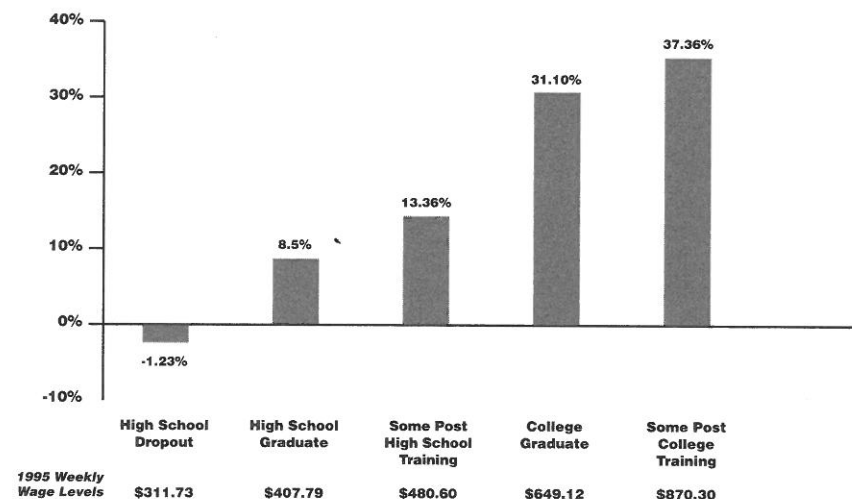
The biggest labor market change of the past 15 years is the deterioration in earnings among less skilled workers. Wages have fallen among a broad range of less skilled workers. Figure 3 shows what's happened to average weekly wages among men who worked full-time and year-round in 1979 and 1995. In 1995, high school dropouts earned 20 percent less than they did 16 years earlier. These dollar values are adjusted for inflation, so they show the change in real purchasing power among these workers. This is a big decrease in wages. Even among high school graduates wages have fallen 8 percent. Only the college educated have seen wage increases.

Less skilled women have not experienced the same amount of wage loss, as Figure 4 indicates. Among female high school dropouts who work full year and year round, wages fell only 1 percent over this time period. But note the actual wage levels at the bottom of Figures 3 and 4. Even though women's wages have not declined as much as men's, women still earn far less than men. Female high school dropouts earned \$312/week, while their male counterparts earned \$426/week. Like men, more educated women have seen enormous wage increases.

**Figure 3. Percentage Change in Men's Average Weekly Wages**  
(Full-Time, Full-Year Workers, 1979-1995)



**Figure 4. Percentage Change in Women's Average Weekly Wages**  
(Full-Time, Full-Year Workers, 1979-1995)



Why this rising inequality in wages between more and less skilled workers? That's the research question of the decade for labor economists. The evidence suggests that it reflects declining demand for less skilled workers and rising demand for more skilled workers. Much of this seems to be due to changing technologies, particularly the computer revolution, which has enhanced the value of skilled workers to employers, while providing fewer and fewer jobs for workers whose primary skills are a strong back and a willingness to work hard. The expanding internationalization of the U.S. economy is also somewhat related to these trends, although the effects are much weaker than public discussion in the newspapers would indicate. Steady declines in unionization have also contributed to this widening wage inequality, since unions tend to raise the wages of less skilled workers. But the decline in unionization is almost surely causally related to these other economic shifts as well.

For less skilled workers, the bottom line is clear: These workers have been earning less and less each year even if they keep working just as hard. This creates real problems for welfare reform. Essentially, we are trying to encourage less-skilled workers to escape poverty through employment at a time when the labor market is moving against us. It's harder to escape poverty through employment now than at any time in the last 30 years, because of these wage changes.



## Policy Issues: Creating an Employment-Based Public Assistance System

This discussion about the labor market should convince you that simply exhorting public assistance recipients to "Get a job" may not solve the problem of poverty. Some persons will not be able to find a job, others will find a job but remain quite poor because of low earnings. I am a strong believer in trying to help public assistance recipients move toward work, but I don't believe that there's any cheap or easy way to do this.

To provide an effective employment-based public assistance system, we need to have at least four components in place.

First, we need effective job search and training programs for current public assistance recipients. States have been experimenting with welfare-to-work programs for two decades, and the good news is that we've learned a lot about how to make such programs effective. The bad news is that a lot of states aren't yet using this knowledge. For instance, among the lessons that I think we've learned about effective programs are the following:

- \* Followup. Programs that simply help women find a first job produce little in the way of long-term results. Most women — particularly those who have not been recently employed — will lose that first job quickly. Programs need to stay in touch with women, helping them find not only the first job, but cope with the problems that job will create and, if necessary, help them find the second and third jobs as well.

- \* Effective Use of Job Search and Job Training. The cheapest programs are job search programs, that provide 1-2 months of job search assistance. These do help public assistance recipients move into work quickly. But they tend to place them in very low wage jobs with few long-term prospects for economic self-sufficiency. Job training programs, on the other hand, are more expensive but they seem to raise wages. Many women, however, are not ready for job training at the beginning. They need to work awhile, gain some labor market experience, and find out for themselves that there's a value to getting more training. Then, when they enter training programs, they're more motivated and do better.

- \* Public Sector Employment. In a world of time limits, I think it will be necessary for states to run some form of public employment programs. For those workers who cannot find work in the private sector, there has to be a job of last resort available. It would be a mistake to design big public sector employment programs; after all, the real goal is to get people employed in the private sector. But short-term placement programs in public sector or not-for-profit organizations may provide experience to the least experienced, and offer a work option for people who search and cannot currently locate a job.

Second, in a world of declining wages for less skilled workers, we need some sort of wage subsidy system if we want the unemployed to get and hold jobs. Fortunately, we already provide this through the tax system, with a program known as the Earned Income Tax Credit or EITC, which provides a refundable credit to low-wage workers. That means that if you go to work and earn \$5/hour,

the government will subsidize your wages by either offsetting your tax bill or (if you owe no taxes) sending you a check to supplement your wage income. Realize how this differs from welfare: you have to work to get the subsidy and (up to a point) the more you work the bigger your subsidy. This is a real incentive to go to work and work more hours.

In the face of declining wages, we have done one thing right in terms of policy. We have vastly expanded the EITC, which grew under Presidents Reagan, Bush and Clinton. Although still a program that is not very publicly known, the EITC is the biggest public assistance program in the country after Medicaid (health insurance for low income families.) The EITC is bigger than TANF and bigger than Food Stamps. As the EITC has grown in size, however, it has suddenly become much more visible and open to attack. One of the most important policy issues in the next decade will be maintaining the EITC. It is the best response we have to declining wages among less skilled workers, providing incentives for them to work and subsidizing their earnings in the face of falling wages.

Third, we need to increase private support to poor families, particularly through an improved child support system. We are in a world where government support to the poor has fallen. You can like or not like that fact, but it is nonetheless true. This makes private assistance to poor families all the more important. A key form of private assistance is child support, paid by absent parents (typically men) to the custodial parent of their children (typically women.) For less skilled women in low wage jobs, an additional \$1000-\$2000 in child support payments often makes it possible to work and have enough income to pay the bills. But very few women receive child support. I use strong words purposefully: Our system for identifying, establishing and collecting child support is a disgrace.

This is a public policy issue as well as an issue of individual responsibility because it is the states that run the child support determination and enforcement system. A few states are doing a better and better job of child support collections. Wisconsin is perhaps at the forefront, collecting payments centrally and sending out the checks to the women. That way they know who's paid and how much they've paid in a timely fashion and can respond immediately to problems. More states need to emulate some of the best state practices in this area.

Fourth, if we want low income single mothers to work steadily, we need to provide a few support services to them that are not available from most employers. This particularly includes health insurance and affordable child care. There is clear evidence that some number of women remain on public assistance because it guarantees them access to public health insurance (Medicaid). In contrast, few low wage jobs provide health insurance. If we demand women work, we need to assure them that going to work won't mean losing their health care. Minnesota is a state at the forefront of experimenting with ways to assure insurance coverage to workers who would not typically receive it from their employers.

Similarly, women who work need to be assured that their children are well-cared for in their absence. The new law allows states to establish their own limits on when women must mandatorily participate in work. Some states are now

requiring any women with a child more than 3 months old to participate in full-time work programs. (One of the key research questions of the next few years is the effect of these work mandates on the children.) If we mandate work for the parents, there is a responsibility to have adequate child care slots available both in terms of quantity and quality.

I am a strong supporter of trying to move public assistance recipients into work and employment. In the long run, I do believe that those who can work are better off if employed in the mainstream economy than at home receiving a check every month. But at present, I think the current welfare reform efforts are incomplete. While the new law moves to enforce work mandates on more public assistance recipients, it does not do enough to assure that work will provide their family with the income necessary to be economically sufficient. In a world where the wages from full-time work will not provide some parents with enough money to live on, we need to worry about how we encourage those parents to work but provide them with the resources necessary to feed and clothe their families.

### **Faith-based issues of moral judgement**

Given the nature of the audience, let me close by moving away from the details of public policy and talking about some of the moral questions imbedded in our current struggle over how to most effectively design a public assistance system. The issues I've been discussing raise a host of moral questions.

First, the new law raises important questions about what society can validly demand of those for whom it provides assistance. Our revised welfare system requires that those who seek public assistance must also meet other demands, participating in activities (especially market work) that society values highly. This particularly emphasizes the obligation of the individual to the community or society, rather than focusing on the obligation of the community to the individual. Some have disagreed with this new law because it eliminates the entitlement to individuals — the demand that the community must always care for its poor regardless of who they are and why they are poor. Others argue that the new law creates a stronger sense of mutual obligations between individual and community, and that such obligations have been lacking in the past.

Work is a particularly valued activity in this new system. This is surely not in conflict with many forms of Christian teaching. The U.S. Catholic Bishops 1986 statement on the economy proclaimed that "Labor has great dignity, so great that all who are able to work are obligated to do so. The duty to work derives both from God's command and from a responsibility to one's own humanity and to a common good (paragraph 102)." Work has value in people's lives, both as a way of integrating the individual into the larger society and as a way of enforcing shared responsibilities between individuals and society. But there are also many kinds of work. For instance, I worry that the new welfare law values market work highly, and gives no attention or value to the work of parenting, which is sometimes in conflict with market work.

The presence of time limits in this law raise deep questions about the limits of

community responsibility for individuals. When (if ever) is a time limit on public assistance morally justified? I am particularly disturbed by rules that limit assistance based only on an arbitrary period of time, without attention to the individual situation. When individuals refuse to acknowledge their responsibility to society perhaps they should encounter public assistance limits that are shorter than five years. Meanwhile, it may never be appropriate to time-limit assistance to individuals who face multiple individual and family barriers to economic self-sufficiency. A one-size-fits-all time limit seems to me a particularly egregious violation of the responsibility a community owes to its poorer families.

These questions are even more complex when children are involved. Even if the parents behave irresponsibly, should the children be removed from assistance because of their parents' behavior? For instance, policies that refuse to pay additional benefits to women who have children outside of marriage are imposing costs on both the woman (whose behavior is being censored) and on the children (who are innocently involved.)

The growing amount of state discretion raises questions about the nature of the community in the United States. Does our core social contract exist at the level of the Federal government or the state government? This has, of course, been a deeply divisive argument throughout our nation's history and was in part the cause of a bloody civil war. As we move into a more and more connected world, with a global economy, instantaneous communication and rapid travel, maintaining a public assistance system at the state level may be increasingly difficult. Many worry already about the migration of poor individuals to those states that maintain more generous benefits under the new law, which will place pressure on those states to reduce their benefits, resulting in the so-called "race to the bottom."

On the one hand, community seems to thrive best at a very local level. On the other hand, there are fundamental questions of equity and resource sharing that demand some societal obligations across neighborhood and state boundaries. For my own tastes, the current welfare reform legislation has gone too far, moving too much of the burden to the state level and creating too great an inequity across regions in their care for the poor.

Welfare reform is not an easy topic and these are not easy questions. Good-hearted, faithful, and hard-thinking individuals can and do deeply disagree about this issue. I am heartened by the states that are taking this new legislation as an opportunity to seriously rethink how to provide public assistance most effectively in support to their neediest families. But I am also alarmed by the states that see this as an opportunity simply to cut public assistance budgets and do less without doing better.

I am certain we can run a more effective public assistance system than we have in the past. But I am also convinced that this system will not necessarily be cheaper or easier to administer than the old AFDC program. If reform is used simply as an excuse to shred the safety net, particularly for the least job-ready population, then the long-term result will be to make life worse for some of our poorest families.

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